

When Is Labor Taxable?

Many sellers mistakenly believe that there is a general sales tax exemption for labor charges. However, in California some labor charges are subject to sales tax, as explained in this fact sheet. Please remember that the information provided here is general and may not fit your specific situation. If you have questions, please call our Information Center for help.

This fact sheet does not discuss the special rules that apply when you perform work on houses, buildings, and other real property. For more information, you may wish to call our Information Center and order publication 9, *Tax Tips for Construction and Building Contractors* or Regulation 1521, *Construction Contractors*.

Sales and Use TAX FACTS

Publication 108 • LDA

For additional information you may wish to order the regulations listed on the reverse, or talk to a Board of Equalization representative.

For assistance, please call our Information Center at 1-800-400-7115

(For the hearing-impaired:
— from TDD phone:
800-735-2929;
— from voice phone:
800-735-2922).

Internet: www.boe.ca.gov

Fabrication labor is taxable

Fabrication is considered to be work done in creating, producing, or assembling a product. Modifying an item or system as part of a sale is also considered fabrication. Charges for fabrication labor are generally taxable, whether you itemize your labor charges or include them in the price of the product. This is true whether you supply the materials for the job or your customer supplies them.

Examples of fabrication labor include:

- Manufacturing a new piece of machinery
- Sizing and engraving a ring you are selling to a customer
- Shooting custom photographs or slides
- Altering a customer's cutting die so that it will produce a new and different item
- Cutting metal or lumber provided by a customer
- Altering a *new* suit to better fit the buyer

Fabrication labor charges are not taxable if your sale is a nontaxable transaction such as a sale for resale (see reverse).

Services related to a taxable sale are taxable

Your charges for services related to a taxable sale are generally taxable. This is true whether you itemize the charges or include them in the price of the product. For example, if you are a photographer, you may charge an hourly rate, plus charges for model fees, travel, and other services related to the production of the photographs. All such charges are taxable.

Other examples of taxable service charges include:

- "Trip charges" associated with a taxable sale (see *Note*)
- Charges for equipment or space rental associated with a taxable sale

Note: If your bill includes taxable and nontaxable charges along with an itemized service charge, part of the service charge may not be taxable. For help determining how tax applies, please call our Information Center.

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Labor or service charges related to a nontaxable sale are not taxable

Tax does not apply to labor or services related to nontaxable sales, including sales for resale. For example, if you design and build a custom computer for a retailer who will sell it in a computer store, none of your charges are taxable — provided you obtain a properly completed resale certificate from the retailer.

Nontaxable types of labor

Repair. Tax generally does not apply to your itemized charges for *repair labor*. Repair labor is work performed on a product to repair or restore it to its intended use. Examples include:

- Replacing a broken water pump on a customer's used car
- Replacing a hard drive in a used computer
- Restoring a damaged painting
- Altering a customer's *used* suit

Tax usually applies to charges for parts you supply in a repair job if the retail value of the parts is more than 10 percent of your total charges or if you charge separately for the parts.

Installation. Sales tax generally does not apply to charges for *installation labor*. For example, tax would not apply to your itemized charges for installing a car stereo in a used car. Please note that it can be difficult to tell the difference between nontaxable installation and taxable fabrication on site. If you have questions, please contact our Information Center for help.

Reporting labor and service charges on your sales and use tax return

You must include all of your labor and service charges for the reporting period in the "total sales" line of your sales and use tax return. If you have charged amounts for *nontaxable* labor, you should take a deduction for those amounts before you calculate the tax due. List them on the line for "Nontaxable labor." If you don't take the deduction you'll pay more tax than you owe.

For more information

To help you learn how tax applies to your own charges for labor, you may wish to obtain one of the regulations listed below or one of our industry-specific *Tax Tip* publications. You can order publications and regulations from our Information Center or check for them on our Internet site: www.boe.ca.gov

1521	Construction Contractors
1524	Manufacturers of Personal Property
1526	Producing, Fabricating, and Processing Property Furnished by Consumers — General Rules
1546	Installing, Repairing, Reconditioning in General
1548	Retreading and Recapping Tires
1549	Fur Repairers, Alterers, and Remodelers
1550	Reupholsterers
1551	Repainting and Refinishing
1553	Miscellaneous Repair Operations

Note: The statements in this fact sheet are general and are current as of February 2000. The sales and use tax law and regulations are complex and subject to change. If there is a conflict between this publication and the law or regulations, decisions will be based on the law and regulations.